

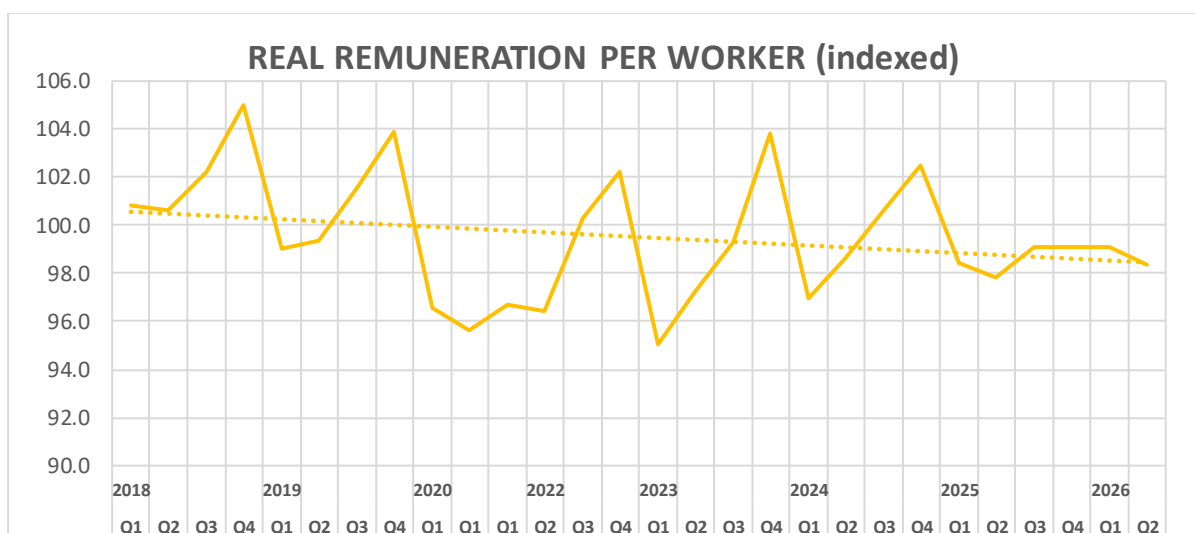
AS IN THE USA, BUT UNLIKE GERMANY, JAPAN'S RATE OF PROFIT ROSE IN Q2 2026

*The recent release of Japanese Corporate data has made this article possible. All data used in this article covering the Japanese Non-Financial Corporate Sector is taken from the Official Statistics of Japan website which can be found [on this link](#). (For all data and graphs see accompanying workbook **Japan M1 Workbook 2018 – Q2 2026**.)*

Japan's non-financial corporate sector shared two common features with the USA, its workers were more exploited, and it shared in the windfall from AI though not to the same degree. On the other hand, while German workers were also more exploited, it shared far less from the AI windfall.

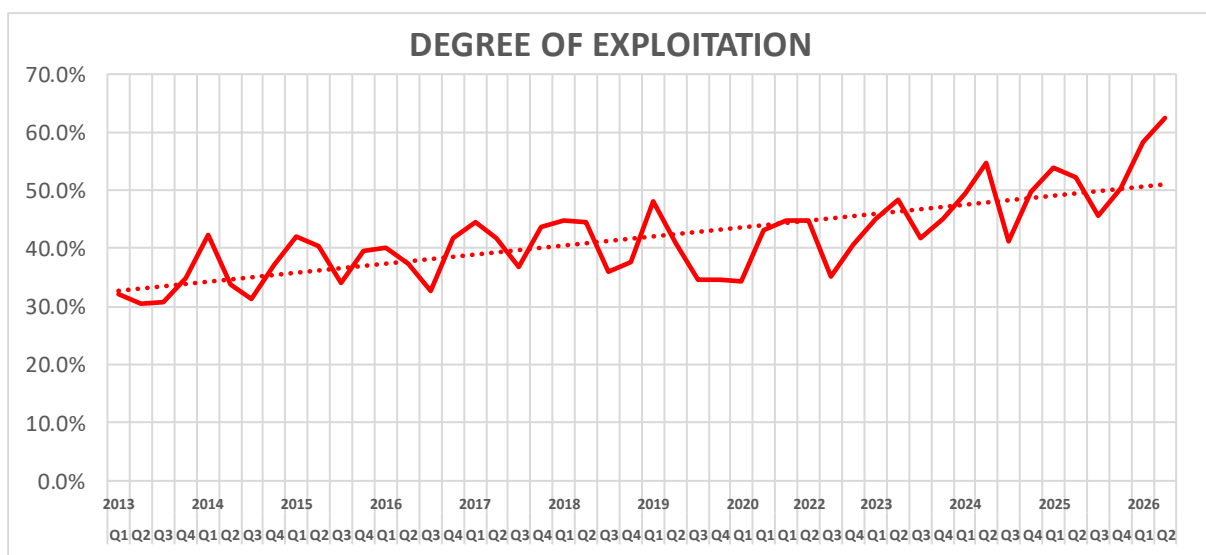
As Graph 1 shows, real worker remuneration in the non-financial corporate sector fell in Q2 and is roughly 3% down from pre-pandemic. (The deflator used is the CPI deflator) Despite the Japanese government urging corporations to pay their workers more, wages continue to be repressed,

Graph 1.



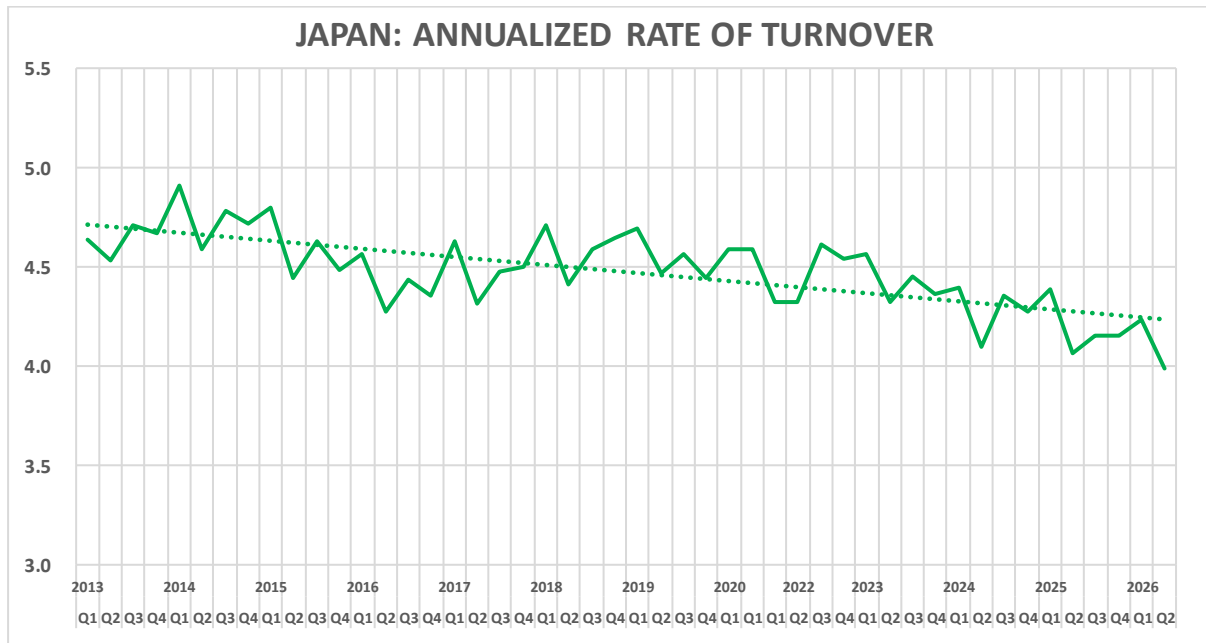
Predictably this repression of wages helped to significantly raise the degree of exploitation.

Graph 2.



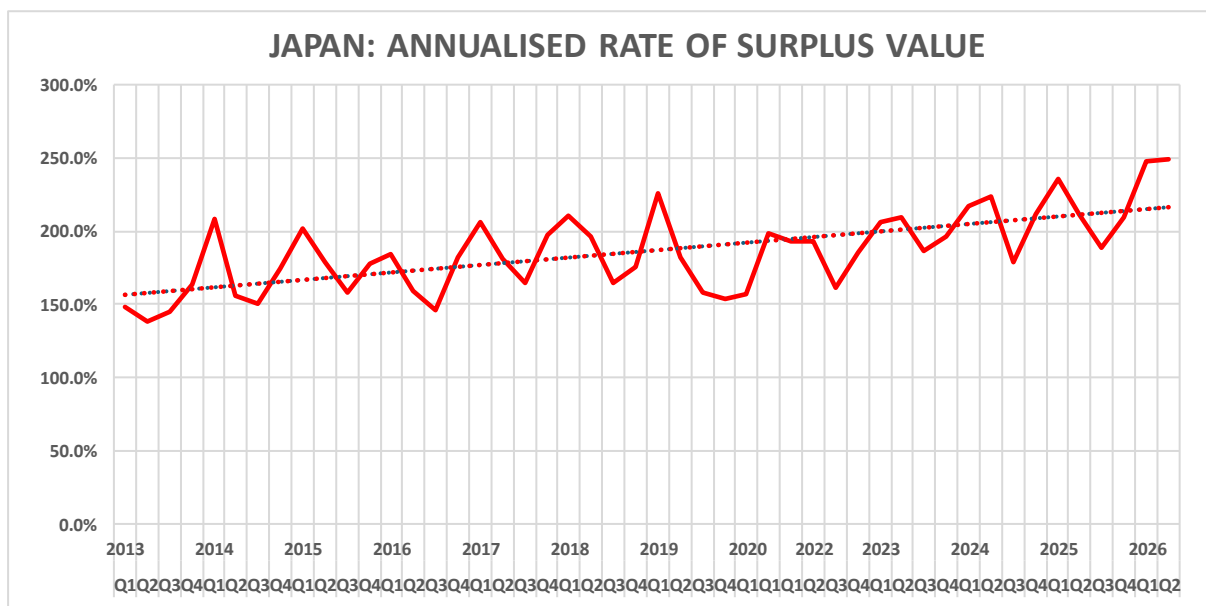
However, the rate of turnover turned down. This shows that general market conditions in the Japanese economy deteriorated. The turnover of capital, that is how fast commodities are produced and sold (paid for), is the single most important indicator of the health of the economy.

Graph 3.



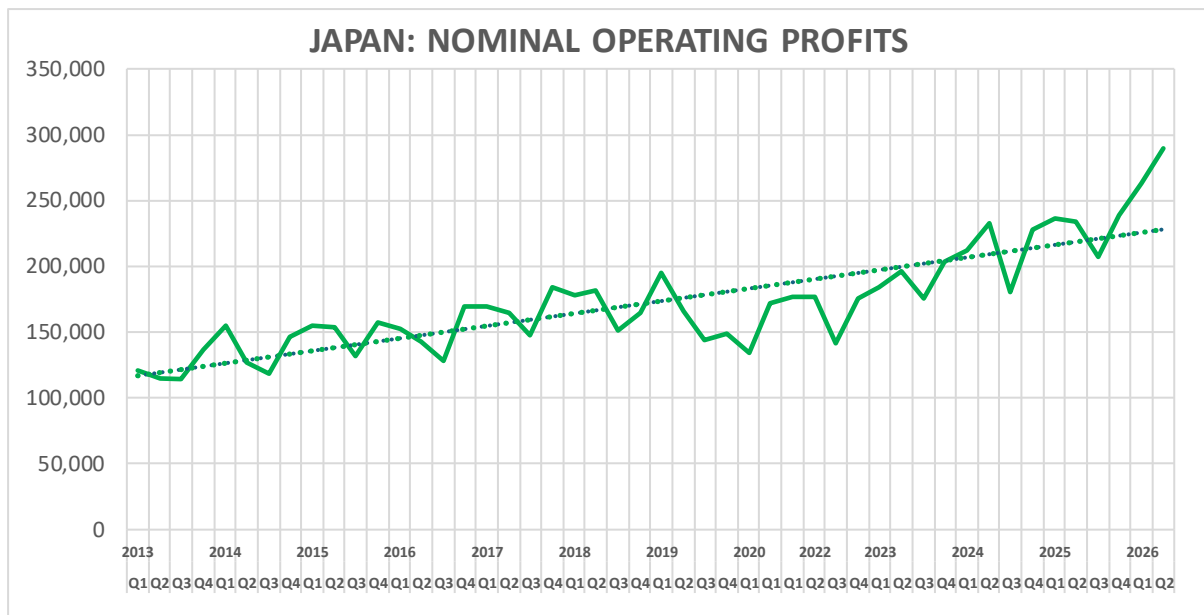
As a result of the slowdown in turnover the rise in the rate of surplus value was more modest. The difference between the degree of exploitation and the rate of profit is turnover. The formula for the rate of surplus value is the degree of exploitation x the number of annual turnovers. Or put another way, it converts the surplus divided by annual worker compensation into the surplus divided by variable capital. As variable capital is currently four times smaller than annual compensation it yields a ratio which is four times greater than the degree of exploitation, or 250% vs 62%.

Graph 4.



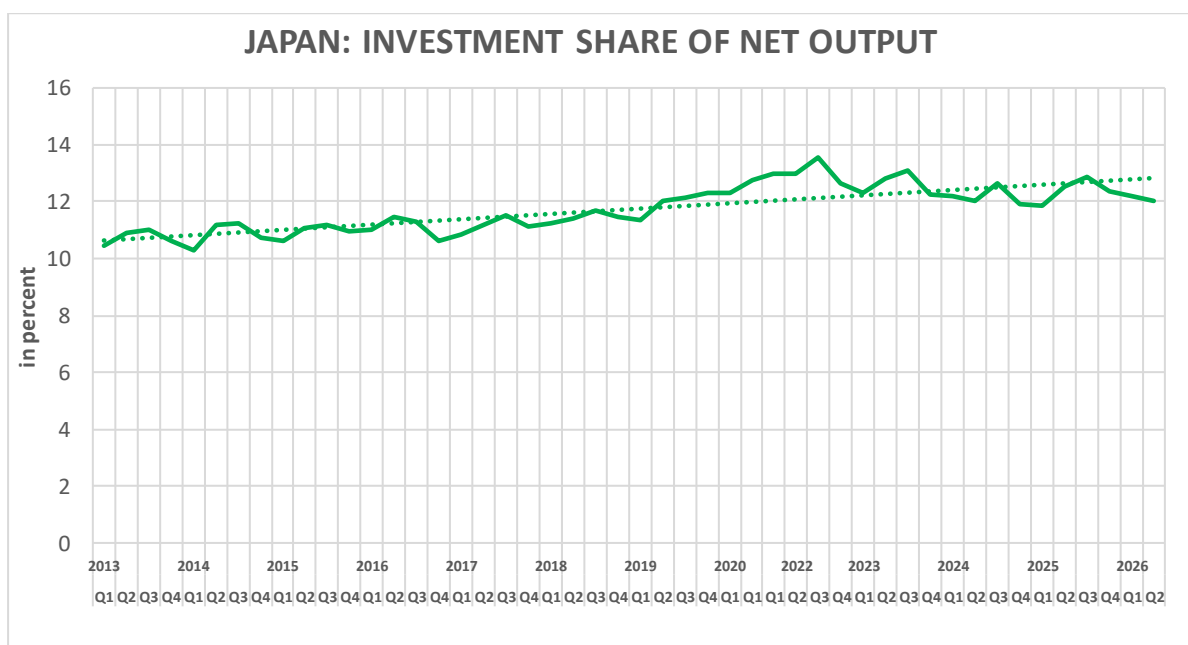
Ordinary Japanese profits rose at their fastest rate since 1954. As in the US most of the profit gains other than cars came from the AI related sector where profits increased by 171.2% *“[Information and communication electronics equipment](#) and transportation equipment were the two largest positive contributors to the manufacturing profit increase among the industries highlighted by the ministry. Ordinary profits in information and communication electronics equipment rose 171.2% to ¥3.10 trillion, while transportation equipment profits increased 50.6% to ¥4.16 trillion.”*

Graph 5.



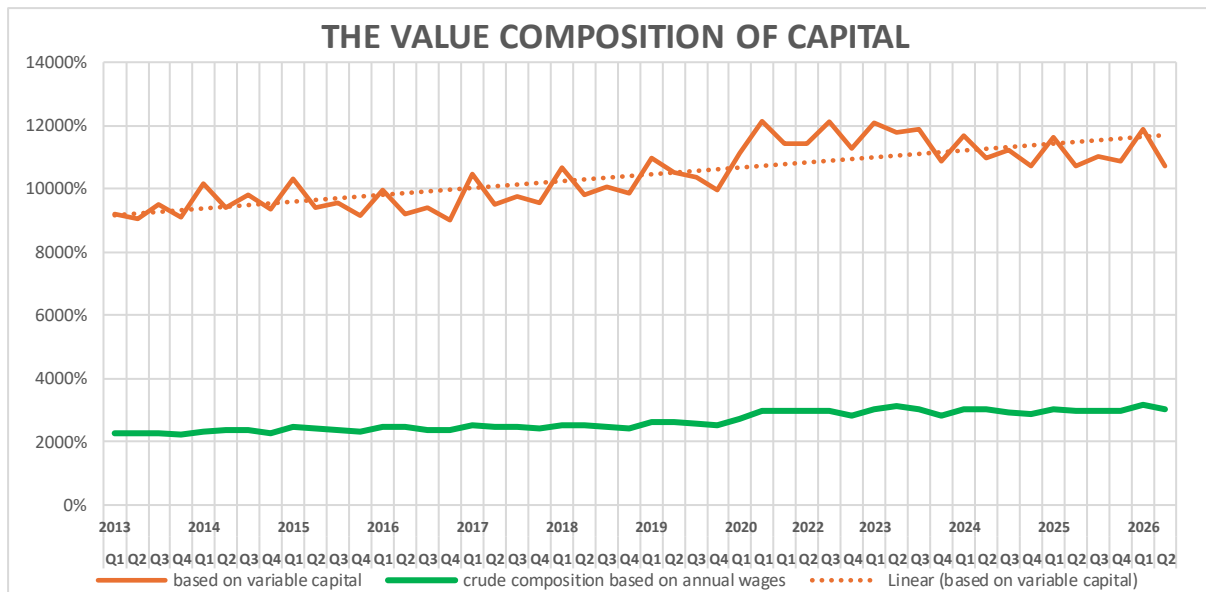
Having completed the income side of the rate of profit equation, we can now turn to the other side, the capital side. As Graph 5 shows, investment remained stuck in the 12% range, around the same level as immediately before the pandemic, but sloping down in the last three quarters.

Graph 6.



This recent ebbing off investment has had a moderating effect on the composition of capital despite the real fall in variable capital over which it is measured. Only the brown graph which is based on variable capital and therefore incorporates turnover is meaningful. The green graph based on annual worker compensation is not.

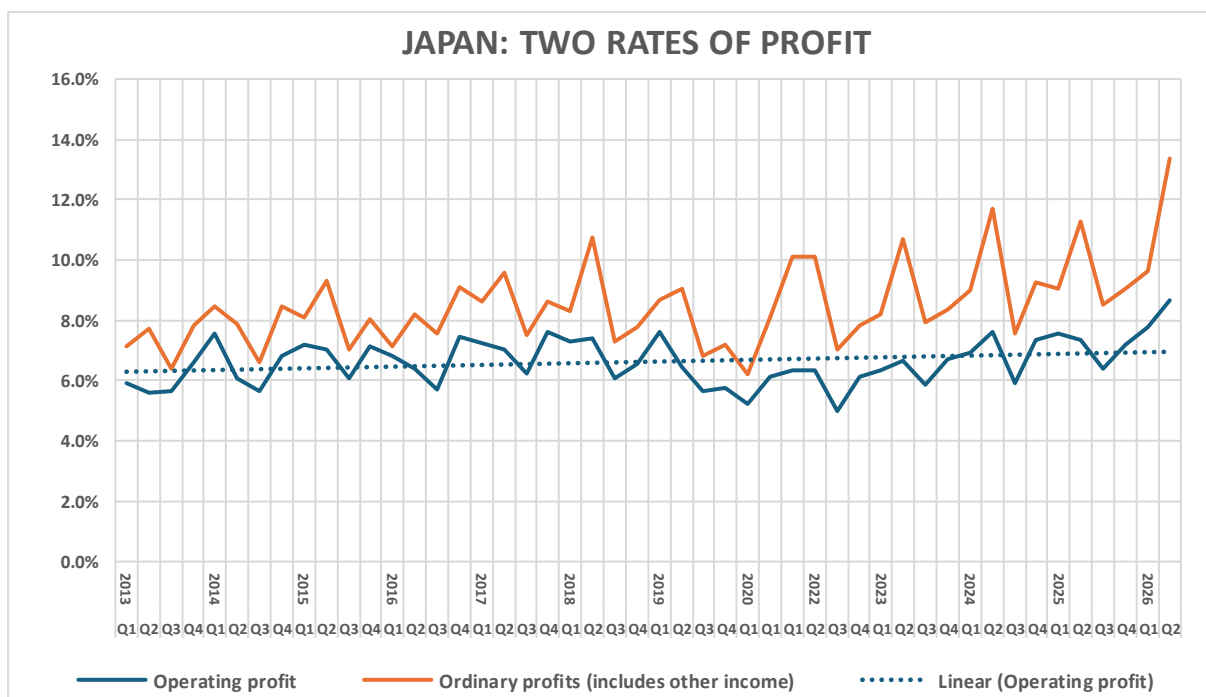
Graph 7.



A rising rate of surplus value, the direct source of profits, when meeting a benign composition of capital, will yield a rising rate of profit, and it does.

In this quarter the rate of profit rose above the highest peak prior to the Pandemic. It rose by 0.9% quarter over quarter. Again, a significant advance.

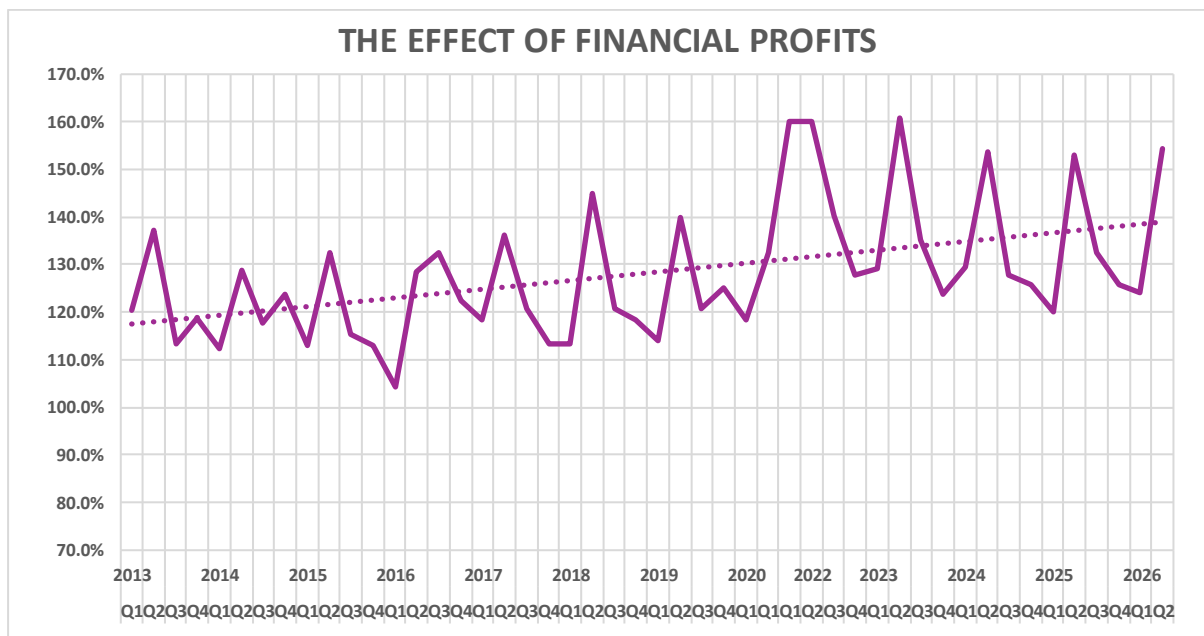
Graph 7.



There has been much talk about 'other income' on the balance sheets of US Big Tech companies such as Alphabet. This represents booked profits from the circular investments in other Big Tech corporations. Other income is generally fictitious even when it is financial. However, nowhere else is 'other income' greater than in Japan due to corporations overflowing with liquidity from uninvested profits or lack of dividend payments or share buybacks. The brown graph above incorporates this 'other income' while the blue graph does not. This quarter has seen 'other income' soar to levels last seen during the pandemic and it is 15% higher than before the pandemic.

The graph below shows the difference between the two forms of profit. Of course any collapse in the fictitious prices of paper will have an adverse effect on ordinary profits.

Graph 8.



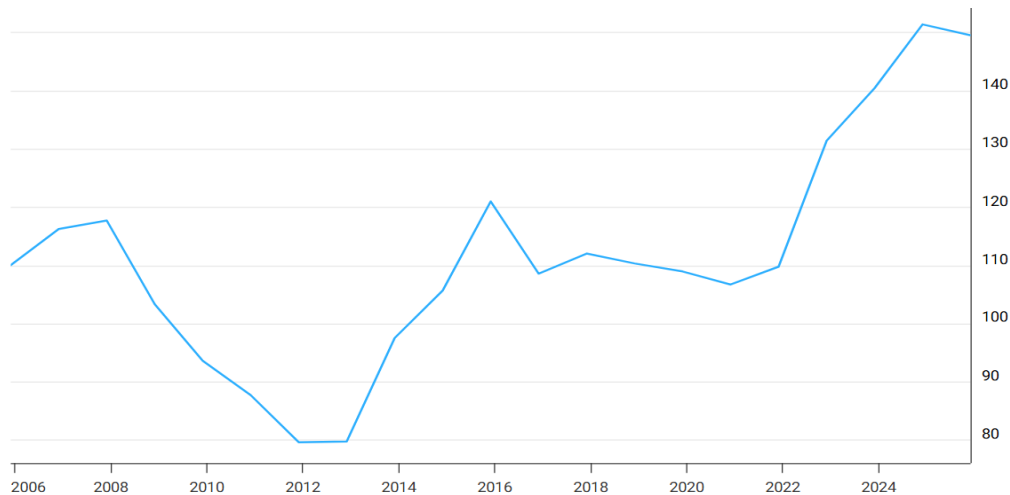
That concludes the analysis of corporate profitability. It is at its highest in 13 years. The series goes back to 2002 and at some point, for historical purposes, I will backdate it, but this will not add much. The recent period incorporating the current trend is what is important and it shows a jump in profits due to the repression of wages and the rise of AI which has benefited innumerable Japanese corporations involved not only in chip production but allied infrastructural sectors. Japan like the US will be affected by any reversal in this bubble.

Bond tensions.

For decades bond yields and bank interest in Japan were far below that found in other major economies. On the other hand, [dividend yields](#) were comparable, around average, and [higher than in the USA](#) where share buybacks predominate. Low interest rates in Japan encouraged funds to move out of Japan in search of higher yields and better prospects. Funds could be borrowed at 1% and safely invested above 3% abroad. This was called the carry trade, and it was huge, sufficient to shift markets. At its height it was worth \$4 trillion, enough to lower interest rates around the world. In other words, without the demand from the carry trade, interest rates particularly in public debt would have been higher. Clearly this influenced the yield on US Treasuries given that Japan holds \$1.2 trillion of this debt.

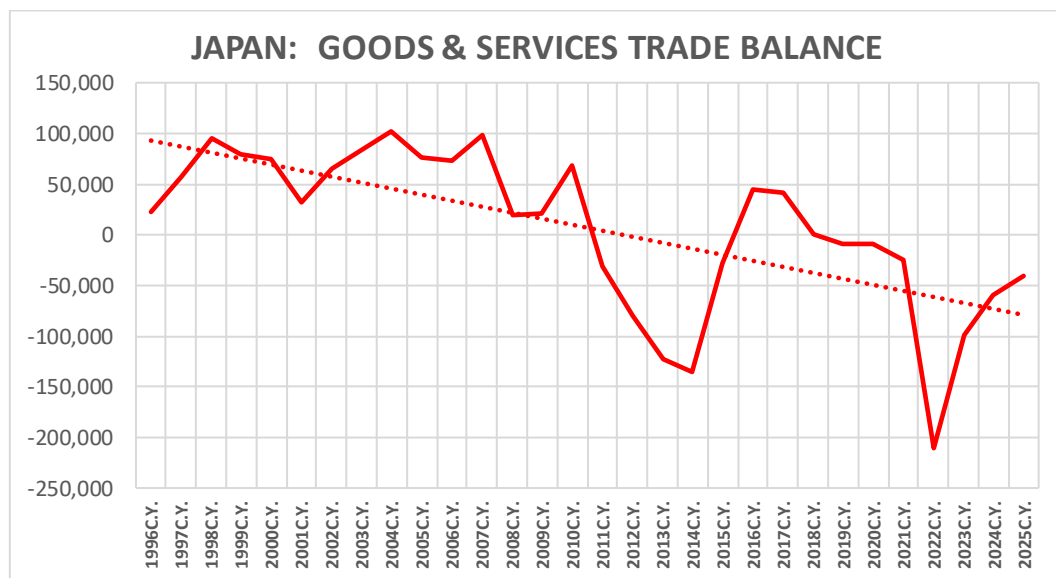
The incentive rate of return on carry trades has two elements, the yield differential and the exchange rate advantage. If the Yen happened to strengthen against the Dollar by more than 2% p.a. it would wipe out the yield differential, but as the graph below shows, the Yen has tended to weaken. This was partly due to the carry trade itself which converted Yen into Dollars to buy foreign assets, and it was due to a deteriorating balance on Japan's goods and services trade as imports overtook exports. (See Graph 10). [Over twenty years](#) the Yen has depreciated about 50% from around 100 to the dollar to around 160 to the dollar currently.

Graph 9.



The last time [Japan enjoyed a surplus](#) on its trade was in 2016 & 2017.

Graph 10.



But recently [Japanese Government Bond Yields](#) have been rising in line with rises elsewhere, as demand for funding grows driven by international budget deficits alongside the insatiable AI boom. The differential between Japanese bonds and bond yields abroad is narrowing. This will disincentivise the carry trade as will the brutish behaviour of the Whitehouse. If the carry trade unwinds and Dollars are converted back into Yen, this will undermine the Dollar while strengthening the Yen. And,

additionally, the moderating effect of the carry trade on interest rates around the world will end. It is likely that this was the incentive behind Scott Besent's recent use of Euros to shore up the Yen as it fell below the critical 160 level. What Bessent was seeking to head off was the danger of Japan selling off US Treasuries (the world's most liquid asset market) to buy Yen which would have driven US yields up even further.

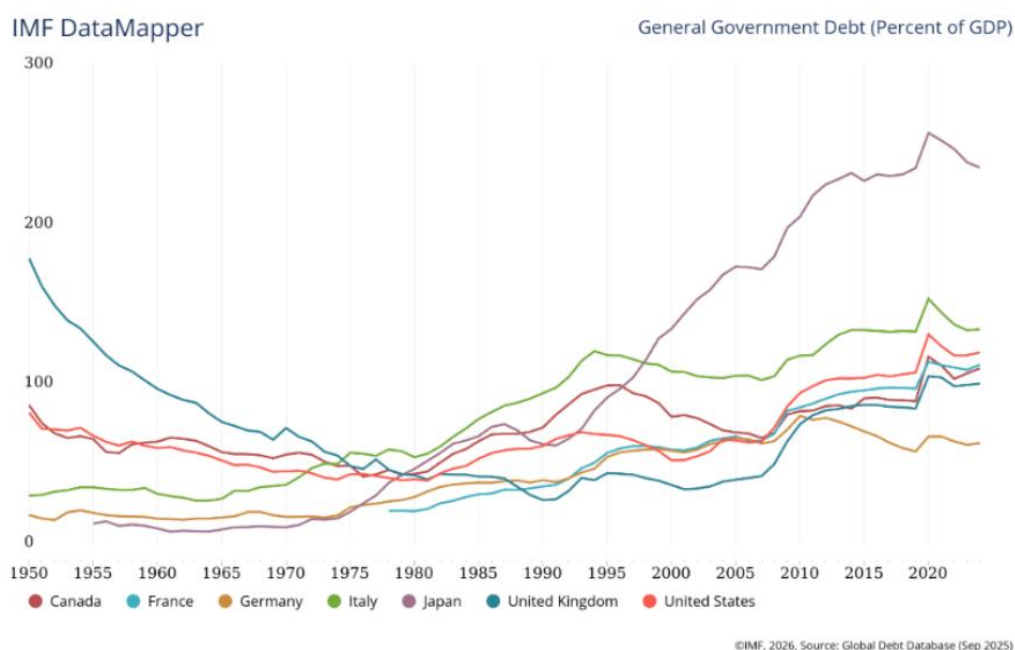
Graph 11.

Japanese Government Bond (JGB) yields have surged to levels not seen in decades. The 10-year JGB yield has climbed toward **2.75%, its highest level since 1997**, while the 30-year yield has pushed above **4%, the highest since that maturity was first introduced in 1999**.



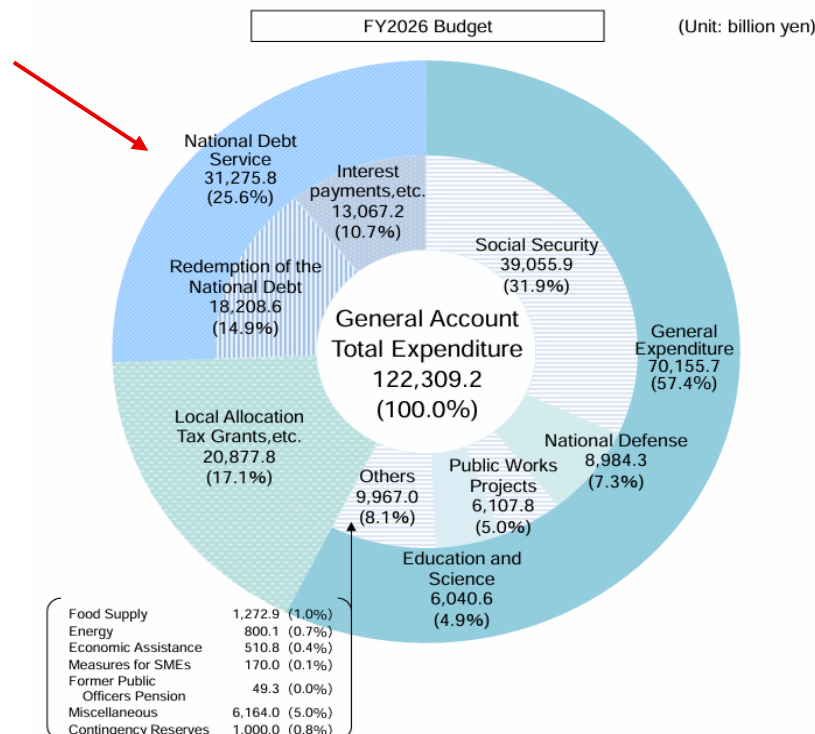
Internally rising JGB yields also threatens the solvency of the Japanese Treasury. Japan has the highest public debt of all the major economies. It is the only economy where government debt stands head and shoulders above 200% of GDP.

Graph 12.



And to service this debt requires over 25% of the government's total expenditures equal to the expenditure on the military, science and education, public works and all the public assistance programmes. This figure will only grow as interest rates rise, making it potentially unsupportable. The same thing is happening in the USA where the Federal Budget Deficit is heading towards 6% of GDP compared to just over 5% in Japan. In Britain government Gilt hit their highest yields since 2008 and in Germany since 2011. And of course, high interest rates will hammer the poorer countries.

Graph 13.



It is worth noting that the Federal debt (excluding state debt) crossed the \$40 trillion mark just as Japanese public debt crossed the \$10 trillion mark. Thus, while the Japanese debt may be larger in terms of GDP it is the sheer scale of the US debt which threatens the world economy as yields rise. And with the world's biggest wealth fund, [Norway's Sovereign Fund](#), announcing pending sales of US Treasuries and with China already selling, the outlook for US Treasuries is dimming. The public debt crisis may very well break out in the USA rather than Japan as was expected.

Conclusion.

Whether it is Germany, the USA or Japan, the balance of forces ensures that wages continue to be repressed resulting in a higher degree of exploitation, the bed rock upon which profits are build. In Japan and the USA, the AI boom has also fed the profit boom. In the case of Japan, the operating rate of profit, has for the first time, been elevated above the peaks prior to the Pandemic. How long this will last depends on the AI boom. The next article will examine China. These four countries produce at least 60% of global profits so in aggregate they provide powerful insights into current global profits.

Brian Green,